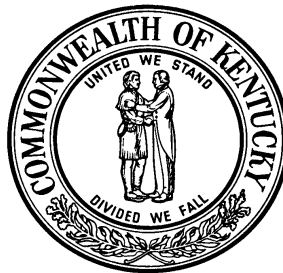


**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LETCHER COUNTY CLERK

For The Year Ended
December 31, 2006

The Auditor of Public Accounts has completed the Letcher County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$10,297 from the prior year, resulting in excess fees of \$15,100 as of December 31, 2006. Revenues increased by \$298,765 from the prior year and expenditures increased by \$288,468.

Report Comment:

- The County Clerk Should Comply With The County's Code Of Ethics

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Winston Meade, Letcher County Clerk
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Letcher County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Winston Meade, Letcher County Clerk
Members of the Letcher County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Comply With The County's Code Of Ethics

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Letcher County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 1, 2007

LETCHER COUNTY
WINSTON MEADE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services		\$	8,988
Fiscal Court			4,046
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	843,148	
Usage Tax		1,840,589	
Tangible Personal Property Tax		1,780,894	
Other-			
Fish and Game Licenses		4,918	
Marriage Licenses		7,912	
Veteran Fund		9,837	
Deed Transfer Tax		18,997	
Delinquent Tax		448,166	4,954,461
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		26,252	
Real Estate Mortgages		19,450	
Chattel Mortgages and Financing Statements		78,939	
Powers of Attorney		2,123	
All Other Recordings		32,837	
Charges for Other Services-			
Candidate Filing Fees		3,160	
Copywork		30,055	192,816
Other:			
Overpayments		15,112	
Miscellaneous		300	15,412
Interest Earned			3,276
Total Revenues			5,178,999

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
 WINSTON MEADE, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	714,144	
Usage Tax		1,786,914	
Tangible Personal Property Tax		664,233	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		4,675	
Delinquent Tax		58,114	
Legal Process Tax		19,664	\$ 3,247,744

Payments to Fiscal Court:

Tangible Personal Property Tax	176,447	
Delinquent Tax	52,344	
Deed Transfer Tax	18,047	246,838

Payments to Other Districts:

Tangible Personal Property Tax	869,958	
Delinquent Tax	222,875	1,092,833

Payments to Sheriff 5,787

Payments to County Attorney 67,932

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	244,814
Part-Time Salaries	2,487
Contracted Services	100

Employee Benefits-

Employer's Share Social Security	23,883
Employer's Share Retirement	39,285
Employer's Paid Health Insurance	28,587

Contracted Services-

Printing and Binding	200
Housing Trust Fund	8,928

Materials and Supplies-

Office Supplies	24,722
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LETCHER COUNTY

The accompanying notes are an integral part of this financial statement.

WINSTON MEADE, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Utilities	\$	4,102
Conventions and Travel		2,888
Dues		600
Postage		6,181
Lease Payments		10,814
Miscellaneous		729
Refunds		15,350

Capital Outlay-

Office Equipment		<u>7,899</u>	\$	421,569
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Total Expenditures			\$	<u>5,082,703</u>
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Net Revenues				96,296
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Less: Statutory Maximum				<u>74,294</u>
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Excess Fees				22,002
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Less: Expense Allowance		3,600		
Training Incentive Benefit		<u>3,302</u>		<u>6,902</u>

Excess Fees Due County for 2006				15,100
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Payment to Fiscal Court - February 26, 2007				<u>13,000</u>
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Balance Due Fiscal Court*			\$	<u><u>2,100</u></u>
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* The County Clerk paid the balance due on April 30, 2007.

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grant

The County Clerk received a local records grant from the Kentucky Department for Libraries and Archives in the amount of \$6,505. The grant award was made to provide rebinding, binders with canvas jacket, canvas jackets with corners, canvas jackets without corners, and recreation. The unexpended grant balance was \$6,505 as of December 31, 2006.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 5. Leases

Copier

The County Clerk's office was committed to a lease agreement with Xerox for a copier. The terms of the lease are a monthly payment of \$413 for 60 months ending in June 2008. The County Clerk made payments of \$4,954 during 2006. The balance of the agreement was \$7,842 as of December 31, 2006.

Software

The County Clerk's office was committed to a lease agreement with Software Management, Inc. for use of the CCLIX Software. The terms of the lease are monthly payments of \$475 plus a \$25 annual service fee for 60 months ending on June 14, 2008. The County Clerk's office made payments of \$5,275 during 2006. The lease renews annually.

Postage Meter

The County Clerk's office was committed to a lease agreement with Pitney Bowes for the use of a postage meter. The terms of the lease are monthly payments of \$65 for 48 months ending July 2006. The County Clerk's office made payments of \$455 on the lease ending July 2006 leaving a balance of \$0. This lease was renewed on July 25, 2006 specifying terms of 20 quarterly payments of \$195 ending in July 2011. The County Clerk's office made payments of \$195 during calendar year 2006 on the renewal lease. The balance of the agreement was \$3,705 as of December 31, 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Winston Meade, Letcher County Clerk
Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Letcher County Clerk for the year ended December 31, 2006, and have issued our report thereon dated October 1, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Letcher County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Clerk Should Comply With The County's Code Of Ethics

The County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 1, 2007

COMMENT AND RECOMMENDATION

LETCHER COUNTY
WINSTON MEADE, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The County Clerk Should Comply With The County's Code Of Ethics

In 2006, the County Clerk hired his son to work in the County Clerk's office and paid him \$345 for the time that he worked in the office. In addition, the County paid him an additional \$50 for moving voting machines for the County Clerk's office. This appears to be a violation of the county's ethics code, which states, "After the effective date of this ordinance no family member of a county officer shall be initially employed or appointed to a position in any county government agency in the same county in which the officer serves, except persons presently employed on the date of this ordinance." The County Clerk subsequently refunded the County Clerk's office and the County out of his personal funds for these payments. We recommend that the County Clerk follow the local ethics code and consult with the Letcher County Attorney to ensure compliance with the local ethics code.

County Clerk's Response: I was not aware of this rule at the time, I met with the County Attorney several times to make sure I complied with the rule.

